STANDARD & POOR'S PUBLIC FINANCE

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Analysis

San Antonio, Texas; Transportation, Airport

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Credit Profile
$20 mil muni debt muni issue
ser 2001 due 2013
A+

Sale date: 18-APR-2001
$52.2 mil muni debt muni issue
ser 2003 due 2013
A+

Sale date: 18-APR-2001
OUTLOOK:
STABLE

Rationale

The rating on San Antonio, Texas' (San Antonio International Airport) bonds reflects the low airline costs, strong origin and destination market, and solid debt service coverage. These are offset by moderate future capital plans, which will more than double the debt outstanding, resulting in high debt per enplaned passenger. More specifically, the rating is based on the following factors:

- The strong origin and destination nature of the airport (91%) and good diversity of carriers with Southwest, American, and Delta accounting for 68% of enplanements in 2000.
- Moderate traffic growth, with enplanements essentially flat from 1997-1999 but increasing 3% in 2000 to 3.6 million. Much of the growth in the airport in 2000 was a result of the continued strong economic expansion in the area. Projections are viewed by Standard & Poor's as somewhat high and are based on expected growth in regional economy; however, uncertainty exists with respect to TWA and the impact of its acquisition by American. TWA accounted for 5% of enplanements in 2000.
- The San Antonio MSA benefits from a strong economy with low unemployment and a growing population. Overall wealth and income levels, however, remain lower than the state and national levels.
- Airline cost per enplaned passenger has been declining and is currently $3.09 per enplaned passenger; 10-year forecasts anticipate that the cost will peak at $3.21.
- Debt service coverage is solid on the senior general airport bonds, averaging 1.8 times (x) over the 10-year forecast period and taking into account future debt issuances.

An offsetting factor is the relatively high debt per enplaned passenger for a facility of this size. Currently debt per enplaned passenger is $28; however, this could rise to $68 given management's future debt issuance plans. The 10-year capital improvement plan calls for $352 million in expenditures. This includes the demolition of the existing Terminal 2 and construction of two concourses with 34 gates. Additional projects include the renovation of the existing terminal, additional parking, roadway improvements, and extension and improvements to two runways (along with supporting taxiways and aircraft apron). To help finance this plan, the airport will begin collecting a $3 passenger facility charge in October 2001. In total, the airport intends to issue $66 million in debt backed by passenger facility charge collections and $68 million in general airport revenue bonds between this fall and 2007. Additional funding for the project will come from federal grants ($81 million), the airport's own funds ($80 million), and pay-as-you-go passenger facility charges ($56 million).

The bonds are secured by a pledge and lien on the gross revenues of the airport. Bondholders will benefit from a fully funded debt service reserve fund; however, it is only funded based on average annual debt service rather than maximum annual debt service. The additional bonds test requires either a certificate from the county stating that the net revenues from the prior fiscal year or in any 12 consecutive months of the past 18 months were at least equal to 1.25x maximum annual debt service. Instead of obtaining a certificate from the county, the airport can obtain a consultant's certificate stating that the three-year projected net revenues are 1.25x debt service requirements. The issuance of these bonds will result in various amendments to the prior master ordinance. The most significant of these amendments is the elimination of a covenant by the city of San Antonio to levy a tax, if necessary, to provide for the operation and maintenance expenses of the airport system. There has never been a need to implement this tax, so the new amended master ordinance will eliminate this provision. While viewed historically as a credit positive, the elimination of this provision (which has never been implemented) is not viewed as a significant erosion in credit quality at this rating level and given the cost recovery practices within the airport enterprise.

Bond proceeds will be used to refund outstanding debt and fund various capital improvements.

Outlook

The stable outlook is based on the airport being able to attain projected forecasts, continued growth in enplanements of 2%-3% per year, and maintenance of a moderate capital plan of $352 million.

Legal Provisions

With these debt issuances, the airport is creating a new master ordinance that will be substantially similar to the prior one. Amendments to the ordinance will take place upon receipt of bondholder approval. The bonds are secured by a first lien and pledge of gross revenues from the operation of the airport system. The bonds are on parity with the outstanding senior obligations. As of March 29, 2001, there was $110 million in debt outstanding. Prior to the issuance and delivery of the series 2001 and 2003 bonds, however, the city will cash defease about $20 million in series 1996 debt. After the cash defeasance, there will be $90 million of outstanding parity debt, of which $52 million will be defeased with bond proceeds.

The gross revenue pledge does not include any passenger facility charges that may be collected. In October 2001, the airport intends to begin collecting a $3 passenger facility charge, but this will not be pledged to this debt issuance as the airport is intending to issue debt backed by passenger facility collections at a later date. Additionally not included in the pledge of gross revenues are net rental payments that are pledged and used to meet debt service requirements on leased facilities. Currently the airport has special-facility debt of $4.2 million from a leased facility to Raytheon and $4.8 million from a leased facility to Cessna.

Bondholders benefit from a debt service reserve fund. The debt service reserve fund requirement, however, is equal to the average annual debt service requirements on all outstanding parity obligations rather than maximum annual debt service. In addition, should there be a deficiency in the debt service reserve fund or should the airport issue additional bonds, the airport can fund the debt service reserve fund to its requirements over a period of 60 months. The city has covenanted in the ordinance to operate the airport so as to obtain gross revenues sufficient to cover operating expenses and provide for 1.25x annual debt service requirements. The new master ordinance calls for the airport to hire a consultant if the airport should fail to meet its rate covenant.

The additional bonds test will be amended to be based on a projected airport consultant's report stating that the net revenues for the three consecutive fiscal years beginning the later of the first complete fiscal year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with the parity obligations; and the first complete fiscal year in which the city will have scheduled payment of interest or principal that is not being paid out of bond proceeds, are at least equal to 1.25x the annual debt service requirements of all parity debt outstanding. In lieu of obtaining an airport consultant's certification, the airport can obtain a certificate from a financial officer showing that for the airport's most recent fiscal year or for any 12 of the most recent 18 months, the net revenues of the airport system were at least equal to 1.25x the maximum annual debt service on all parity obligations outstanding and proposed to be issued. Completion bonds are allowed to be issued subject to a limit of 15% of the aggregate principal amount of the parity obligations initially issued to pay the cost of the capital improvements. Subordinate debt and special facilities debt can be issued without limit.

All gross revenues that are received daily will be deposited into the revenue fund. Money from the revenues fund will be first used to pay debt service (monthly installments on principal and interest scheduled to come due), the debt service reserve fund, and then the airport's operating and maintenance expenses. Subordinate debt service and any subordinate reserve fund requirements would be paid after operating and maintenance expenses. At this time, however, the airport does not have any subordinate debt outstanding and does not intend to issue any. All remaining funds will be deposited in the capital improvement fund. Money in the capital improvement fund can be used to meet any of the above-mentioned requirements or for paying the costs of other capital expenditures related to the airport system or any other purpose that is related to the airport system. The excess funds in the capital improvement fund are shared with the airline pursuant to the provisions of the airline use and lease agreement. The new master ordinance eliminates a contingency reserve fund that was required to be funded at $300,000 and was paid after subordinate debt service.

Other changes to the master ordinance allow the airport the flexibility to issue variable-rate debt and commercial paper, even though at this time the airport has no such plans.

The changes in the master ordinance would occur in two phases. Most changes would be enacted under the first amendment, which is expected to occur when the aggregate principal amount of all outstanding parity debt obligations issued prior to 2001 constitute less than 49% of all outstanding parity debt--expected with the delivery of the 2003 bonds. The second amendment would take place once all parity debt obligations issued prior to 2001 are no longer outstanding (July 1, 2006). This second amendment will call for the elimination of the provision that allows the city to levy an ad valorem tax to provide funds for the operation and maintenance fund and revises the manner in which future amendments can be made in the master ordinance. The airport has always had the ability to levy ad valorem taxes but has never done so.

Airline Use/Lease Agreement

The city has signatory agreements in effect with eight airlines (American, Continental, Delta, Mexicana, Northwest, Southwest, TWA, and United). The agreements expire Sept. 30, 2001, and negotiations are currently underway for renewal of the agreement. Management does not expect any significant changes to the new agreements and expects to renew the signatory agreements for a five-year period. Nonsignatory airlines include: Midwest Express, Sun Country, Aerolitoral, Aeromar, Atlantic Southeast, and America West.

The airline rates and charges at the airport are primarily based on a compensatory structure. There are, however, provisions for sharing of surplus revenues. The signatory airlines receive this as a credit to the terminal rents charged. In fiscal 2000, the landing fee for both signatory and nonsignatory airlines was 91 cents per 1,000 pounds of landed weight. The average terminal rental rate for signatory airlines was $23.45 per square foot compared to $52.13 for nonsignatory airlines.

Credits to the signatory airlines come from the capital improvement fund after all deficiencies are met in the flow of funds and a 25% coverage requirement is met. The remaining portion in the capital improvement fund is divided between the airlines and the airports on a 50-50 basis.

Air-Trade Service Area/Economy

The demand for air transportation is largely dependent on the demographic and economic characteristics of the air trade area. This is particularly true since San Antonio International Airport is primarily an origination and destination airport, with more than 90% of traffic origination and destination in nature and very little connecting activity. The air-trade area primarily consists of the four-county San Antonio MSA (Bexar, Comal, Guadalupe, and Wilson counties).

The San Antonio MSA had a 2000-estimated population of 1.6 million, placing it among the top 10 cities in the nation. From 1990-2000, the MSA grew 18%, for an average annual growth of 1.9%, which is equal to that of the state and greater than that of the nation (1%). The growth is attributable to the city's consistently strong economic expansion.

The city's overall economic growth remains vibrant with particularly strong growth in the services and trade sectors. As a result, unemployment in the MSA is low at 3.3%. Recent major expansions and additions include Lockheed Martin (1,450 positions) and Providian Financial (850). The city's proximity to Mexico promotes strong international trade and tourism, which creates further economic diversity. Government, particularly military, remains a large component of the economy with five military bases located in San Antonio. Kelly Air Force Base is scheduled to close in July 2001. The city is continuing to work on privatization efforts at Kelly, where it has been successful at adding about 4,500 positions to the 8,300 that will be retained from the base, for a total of 12,800. The city's goal is to add 21,000 jobs through privatization by 2006 to offset the estimated loss of 12,000 jobs. Lockheed Martin and Boeing are the leading employers at Kelly and are expected to spur further privatization. Despite the continued growth in economic activity and low unemployment levels, wealth and income indicators remain below the nation's average. The city's median household effective buying income in 1999 was 85% of the nation's level.

Airport Description

San Antonio International Airport is located on a 2,600-acre site, eight miles north of the city's downtown business district. The airport has three runways with the longest one measuring 8,502 feet. The airport has two terminal buildings and 28 gates. Management estimates that currently the gates are being used at 88% of capacity and anticipates expanding the airport to 34 gates by 2015.

The airport primarily serves the four-county MSA with the closest commercial airport 66 miles away in Austin. In 2000, San Antonio International Airport served 7.3 million passengers. The airport provides service to 14 passenger airlines and has 115 flights daily. The airport provides some international service (3%-4% of enplanements)--mostly to Mexico. Southwest Airlines is the largest carrier, accounting for 35% of enplanements of the total 3.6 million enplanements in 2000. The top three carriers have consistently been Southwest, American (16%), and Delta (16%), and combined account for 67% of enplanements. TWA represented 5% of enplanements at the airport in 2000. It is uncertain what the ultimate effect of the acquisition of TWA by American will have on enplanement activity.

Overall, enplanements have grown by 4% over the past three years. Much of this growth occurred in 2000 when enplanements increased by 3%. Management anticipates that enplanements will continue to increase as a result of the solid economy in the San Antonio market as well as planned expansions to the convention center. The top five city destinations from the airport are Dallas, Houston, Chicago, Las Vegas, and New York.

Capital Improvement Program

The 10-year capital improvement plan calls for $352 million in expenditures. The plan includes the removal of the existing Terminal 2, which is more than 40 years old, and the addition of two concourses with corresponding terminal space. The plan calls for increasing the gates to 34 by 2015. Additional projects in the plan include: terminal renovation of existing facilities, additional public parking facilities (2,400 spaces), roadway improvements, and extension and improvement to two runways along with supporting taxiways and aircraft apron.

Financing of this project will come from passenger facility charges ($56 million for pay-as-you-go and $66 million from passenger facility charge debt), federal grants ($81 million), additional senior general airport revenue bonds ($68 million), and the airport's own funds ($80 million).

Finances

The airport's operating revenues include fees and charges to airlines for landing fees, terminal rental fees, and certain reimbursable expenses. In addition, the airport also generates revenues from parking, food, beverage, and retail concessions. Airline revenues accounted for 27% of total revenues; however, airline revenues as a percentage of total revenues have been declining. This is a result of increased revenues from concessions and parking, which now account for 52% of the total $41.6 million in revenues earned in 2000.

Management has recently re-evaluated its operations and as a result anticipates achieving annual operating cost savings of $1.2 million through consolidation of operation and automation. In addition, management has updated fees and added new services like valet parking, which will produce additional operating revenues of $1.9 million.

Airline costs at the airport are low at $3.09 per enplaned passenger and are forecasted to remain in this range even with the issuance of additional debt. Debt per enplaned passenger is low at $28.53 but will rise to about $68.00 after taking into account planned future debt. Management intends to issue $38.4 million in debt in 2001 and another $30.00 million in 2007 for a total of $68.3 million in general airport revenue bonds. In addition, the airport will issue $39 million in debt backed by passenger facility collections in 2001 and $27 million in 2007.

The airport expects to collect a $3.00 passenger facility charge starting in October 2001. The application is for a total projected collection of $95.4 million and an estimated termination of collection in December 2009.

Even though there is a gross revenue pledge, Standard & Poor's evaluates the airport based on a net revenues pledge. From 2001-2010, net revenues yield an average debt service coverage on the general airport revenue bonds of 1.84x and a minimum of 1.70x in 2005.

Fitch Rates San Antonio, TX Airport Revenue Bonds `A+'

12 Apr 2001 2:44 PM

Fitch-NY-April 12, 2001: Fitch today assigned an `A+' rating to the City of San Antonio, TX $20,000,000 series 2001 (alternative minimum tax [AMT]) airport system improvement revenue bonds, and to the City of San Antonio, TX $52,165,000 series 2003 (AMT) airport system forward refunding revenue bonds. The bonds will be priced on April 18 through negotiation with Lehman Brothers, Dain Rauscher, Inc., Apex Pryor Securities, Inc., and M.R. Beal & Company. Interest for the series 2001 bonds is payable every January 1 and July 1, commencing July 1, 2001. The series 2001 bonds that mature on July 1, 2011, or after, are subject to optional redemption at the discretion of the city. Final maturity for the series 2001 bonds is 2016 and 2013 for the series 2003 bonds. The series 2003 bonds will be delivered on April 8, 2003. Both series are expected to carry insurance. Prior to the delivery of the series 2001 and 2003 forward refunding revenue bonds, the city will defease $20 million of its outstanding series 1996 airport system improvement revenue bonds. After issuance, pending market conditions, outstanding airport system revenue bonds will total $102,800,000, consisting of: $11,230,000 series 1992A revenue bonds, $3,130,000 series 1992B refunding bonds, $9,265,000 series 1993 refunding bonds, $13,675,000 series 1996 revenue bonds, $19,940,000 series 2001 revenue bonds, and $51,800,000 series 2003 forward purchase refunding bonds.

The `A+' rating on the airport's bonds reflects the strong origination and destination (O&D) traffic base, at 91% of total enplanements, solid financial results, the competitive nature of the airport's cost structure, proactive management, and the diverse balance of airlines serving SAT. These strengths mitigate concerns about an air trade area industry focus on tourism, although it is decreasing, and a relatively low to moderate cash position.

The San Antonio International Airport serves the growing economy of Texas' third largest city. While SAT is roughly 70 miles away from Austin, TX's airport, and 180 miles from Houston's two major airports, it handled higher than national average enplanements during the 1990s, and based on its high O&D traffic, indicates a separate and distinct service area from its competitor airports. SAT also enjoys a diversity of airlines, with Southwest, American Airlines, Continental Airlines and Delta Airlines, comprising a total 79% of passenger service in 2000. With the exception of Southwest, at 35% marketshare, no airline surpasses more than 16% of enplaned passengers.

Financial operations have produced strong net revenue debt service coverage (DSCR), ranging from 1.43 times(x) in 1994 and 1999 to 1.67x in 2000. These healthy financial results, as well as the presence of low-cost Southwest Airlines, have resulted in a low-cost structure, with average airline cost per enplaned passenger (CPE) at $3.09 in 2000. With borrowing needs assessed through 2009, forecasts through 2010 do not expect CPE to surpass $3.21, giving SAT financial flexibility to raise rates and charges to airlines in the future. The airport has traditionally used pay-as-you-go funding for a portion of its capital projects to assist in its low-cost structure, a proactive effort by airport management. While cash financing is viewed as credit strength, this has, however, kept SAT's liquidity position in the low-medium range, currently at approximately $20 million, including $5.5 million cash from the city's budget. Fitch believes, however, that this is largely mitigated by SAT's limited debt needs, relatively low debt burden, and upward rate-setting flexibility. SAT employs a compensatory use and lease agreement, which largely dictates its cost structure, with a 50%-50% revenue sharing component after debt obligations are met. The current 5-year lease expires in September 2001, and renegotiation has not been completed. While Fitch views successful execution of use and lease agreements as key to a solid credit, no significant changes are expected, and execution of the new lease should be accomplished. Fitch will continue to monitor lease negotiations. Additionally, a traditional concentration in the air trade area's tourism, though it is a declining sector the air trade area's economy, is a moderate credit concern.

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New Issue

April 17, 2001

San Antonio (City of) TX

San Antonio International Airport

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Moody's Rating

Issue		Rating
Airport Improvement Revenue Bonds, Series 2001		A1
Sale Amount	$20,000,000	
Expected Sale Date	05/17/01	
Rating Description	Airport Revenue Bonds	
Airport Refunding Revenue Bonds, Series 2003 (Forward Delivery)		A1[1]
Sale Amount	$52,162,000	
Expected Sale Date	04/17/01	
Rating Description	Airport Revenue Bonds	

[1] Provisional, subject to delivery

Moody's Assigns A1 Ratings to San Antonio, TX, Airport Revenue Bonds

Opinion

Moody's assigns an A1 rating, with a stable outlook, to the City of San Antonio, Texas, Airport System Improvement Revenue Bonds, Series 2001, and a (p)A1 rating to the Airport System Forward Refunding Revenue Bonds, Series 2003. The bonds will be used, respectively, to finance a portion of the airport's capital improvement program and refund outstanding bonds for savings. The bonds are secured by the gross revenues of the airport system. The A1 rating reflects the strong economy of the airport system's service area, the airport's diverse carrier mix and positive enplanement trends, the modest debt that will remain competitive after funding of the capital program and the system's strong financial position.

AIRPORT SERVES A GROWING AND DIVERSE METROPOLITAN AREA

The airport serves the nation's ninth largest city. San Antonio's economy is diverse, containing a significant hospitality sector, a still sizable military presence, large manufacturing concerns with an increasing aeronautical presence, growing business service operations, and an expanding health care component. Moody's expects the city's local economy to remain strong given San Antonio's popularity as a tourist destination, continued job growth driven by successful redevelopment efforts and ongoing retail, manufacturing, and service industry development, and sustained expansion of the city's residential sector. The largest tourist destination in Texas, the city of San Antonio attracts over eight million people annually. This is reflected in a steady increase of hotel room nights and an expansion of visitor-related activities, as well as in steady enplanement growth that has averaged 3.1% per year since 1994. Airport utilization, which is a measure of enplanements against the population of 2.23, is just above Moody's median of 2.1. About two-thirds of the enplanements are business related trips, which includes conventioneers.

Ongoing development of the city's retail, manufacturing, and business service sectors has contributed to continued employment growth, which has averaged approximately 3% annually for each of the last ten years and has enabled the city to, in recent years, maintain unemployment rates below both the state and the nation. In addition, following the announced closure of Kelly Air Force Base, the city began a redevelopment plan for that facility, now called Kelly USA, and, through privatization of existing operations and new uses, has already created an additional 4,456 jobs.

MASTER PLAN UPDATE CALLS FOR TERMINAL REDEVELOPMENT AND ADDITIONAL PARKING; MODEST ADDITIONAL DEBT EXPECTED

The airport has developed a ten year capital improvement program to replace Terminal 2, the older facility on the airport, and increase parking capacity. The program is planned in phases and can be scaled and timed to meet enplanement growth. The $352 million program will be funded with about $135 million in bonds, keeping the airport's debt ratio, currently 36.3%, and debt per enplaned passenger, $31.15, moderate. About $60 million in additional bonds are expected to be issued later this year. The airport has made application to the FAA to implement a $3.00 passenger facility charge that the airport expects to begin collecting October 1, 2001. The airport is also undertaking a forward refunding which, when combined with a $20 million cash defeasance of debt, will result in present value savings of 6.49% of refunded par.

PASSENGER AND FINANCIAL OPERATIONS ARE STRONG

The airport operates a compensatory rate making methodology that also incorporates a revenue share mechanism with the airlines. The airport boasts a balanced mix of carriers, with Southwest representing about 35% of enplanements, American and Delta each providing about 16% and the balance distributed among other carriers. Gates are leased under exclusive arrangements, but the airport has three of the 24 gates available for rental for a new entrant carrier. Airline costs per enplaned passenger were a competitive $3.09 in 2000, and are expected to remain in the $3.00 range. Debt service coverage has averaged 1.74 times over the past three years, and was 1.84 times for fiscal 2000. The airport has strong liquidity, with working capital of $47 million at the end of fiscal 2000.

CHANGES IN INDENTURE CONTINUE TO PROVIDE ADEQUATE BONDHOLDER SECURITY

With this financing, the airport has adopted revisions to its master indenture that include springing lien provisions. The airport has historically had a back-up pledge of city funds to the extent necessary. This provision has never been deployed, and will be removed upon bondholder approval. The airport has also created the flexibility to issue short-term debt. The rate covenant and additional bonds tests, that require 1.25 times coverage under various scenarios, will be maintained.

Outlook

The stable outlook reflects Moody's expectation of a modest impact on airport debt resulting from the capital improvement program. The rating also reflects Moody's expectation of continued strong financial performance.

Type of airport: Origination & Destination

Enplanements, FY 2000: 3,647,094

Growth in enplanements, 1994-2000: 3.1%

Percentage of O&D traffic: 97%

Largest carrier: Southwest Airlines (rated A3), 34.9% of 2000 enplanements

Debt per enplaned passenger, 2000: $31.15

Debt service coverage by FY 2000 net revenues: 1.84x

Utilization: 2.23

Debt outstanding: $110.2 million

Report Number
66145